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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

January 10, 1997

Mr. William Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W.  
Washington, D.C. 20554

DOCKET FILE COPY ORIGINAL

Re: In the Matter of: Federal - State Joint  
Board on Universal Service, Public Notice,  
"Common Carrier Bureau Seeks Comment on  
Universal Service Recommended Decision,"  
in CC Docket No. 96-45, DA 96-1891  
(released November 18, 1996)

Dear Mr. Caton:

On behalf of the City of Chicago, I have enclosed for filing an original  
and four (4) copies of its Reply Comments in the above captioned matter.

Sincerely,

Jack A. Pace  
Assistant Corporation Counsel  
(312) 744-6997

cc: Federal - State Joint Board and Staff

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Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

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In the Matter of

Federal-State Joint Board on  
Universal Service

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CC Docket No. 96-45

REPLY COMMENTS

of

THE CITY OF CHICAGO

January 10, 1997

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, D.C. 20554

In the Matter of	)	
	)	
Federal-State Joint Board on	)	CC Docket No. 96-45
Universal Service	)	

**REPLY COMMENTS OF THE CITY OF CHICAGO**

The City of Chicago, by its attorney, Susan S. Sher, Corporation Counsel, submits its Reply Comments in the above-captioned proceeding.<sup>1</sup>

**I. INTRODUCTION AND BACKGROUND**

On November 8, 1996, the Federal-State Joint Board ("Joint Board" or "JB") issued its Recommended Decision on Universal Service ("Recommended Decision" or "RD"). The Federal Communications Commission ("FCC") then issued a Notice of Proposed Rulemaking ("NOPR") seeking comment concerning the Joint Board's recommendations, with initial comments having been filed by various parties on December 19, 1996. The City of Chicago ("City" or "COC") submits these reply comments regarding the Recommended Decision and in response to the earlier submissions of other parties.

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<sup>1</sup> Federal -State Joint Board on Universal Service, Public Notice, "Common Carrier Bureau Seeks Comment on Universal Service Recommended Decision," in CC Docket no. 96-45, DA 96-1891 (released November 18, 1996). Recommended Decision hereinafter cited as "RD."

Section 254(b) of the Telecommunications Act of 1996<sup>2</sup> provides principles to guide the Joint Board, and the Commission, in developing mechanisms for preserving and advancing universal service. Overall, these entities are to focus on policies that will result in the availability of quality, reasonably priced services in all regions of the country. Both advanced telecommunications and information offerings are to be accessible nationwide. The new regime must insure that schools, health care, and libraries, specifically, must have access to advanced telecommunications services.

In financing this program, enabling mechanisms must not be discriminatory or unfair. Nor can the new universal service program rely on the "hidden subsidies" of the present regime or leave the level of such transfers unquantified. This mandate is contained in subparts (4) and (5) of Section 254(b):

EQUITABLE AND NONDISCRIMINATORY CONTRIBUTIONS. -- All providers of telecommunications services should make an **equitable and nondiscriminatory contribution** to the preservation and advancement of universal service.<sup>3</sup>

SPECIFIC AND PREDICTABLE SUPPORT MECHANISMS. -- There should be **specific, predictable and sufficient** Federal and State mechanisms to preserve and advance universal service.<sup>4</sup>

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<sup>2</sup> 1996 Act, Pub. L. No. 104-104, 110 Stat. 56, amending the Communications Act of 1934, 47 U.S.C. §§ 151 *et. seq.*, and referenced hereinafter by applicable section of the U.S. Code.

<sup>3</sup> 47 U.S.C. § 254(b)(4), emphasis added.

<sup>4</sup> 47 U.S.C. § 254(b)(5), emphasis added.

The City of Chicago supports these principles and the approach that the Joint Board has followed in adopting its universal service recommendations. COC believes that the JB is correct in its identification of an additional guiding principle not explicit among those cited by the Act, namely competitive neutrality. COC also believes that the framework that the JB has set forth for resolution of important service, eligibility, access, support and administrative issues is basically sound and comprehensive. As the Joint Board recognizes, however, there is insufficient record evidence to permit full analysis of several major issues. Indeed, the proxy model approach for determining high cost assistance, which is central to the RD's financial proposals, is admittedly in need of further development. Thus, the policy implications of the new assistance mechanism as described by the Recommended Decision cannot be fully assessed at this time, especially respecting their fiscal impact on consumers and carriers.

Generally, COC urges the Commission to reject proposals that would result in creation of any more than a minimum level, narrowly focused system of subsidies to replace current mechanisms. As the Congress recognized, there is no "free lunch" where subsidies are involved. The related financing required will accrue to nonfavored subscribers with potentially deleterious effects. Caution should be the watchword. Indeed, Joint Board State members have already expressed various reservations respecting high cost assistance, and reported that "a concern about the potential enormous size of the program is shared equally by all members."<sup>5</sup>

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<sup>5</sup> November 7, 1996, Press Release of the State Members of the Federal-State Joint Board on Universal Service, CC Docket No. 96-45.

Whenever possible, the City believes that elements of the program adopted should give way over time to results obtained from utilization of market forces, or their surrogates, in order to encourage the most efficient and economical usage of the industry's resources. It is crucial that new universal service mechanisms not encumber the industry, at the outset of competitive entry into local markets, with overly broad and excessively burdensome responsibilities, whatever meritorious uses of new subsidies might find favor with advocates of "proactive" policy. The Congress has carefully considered the social tradeoffs of various alternatives, and already indicated which pass muster.

## **II. SIZE AND SCOPE OF THE RECOMMENDED PROGRAM**

In several important instances, the Recommended Decision does not offer adequate consideration of the social tradeoffs that are fundamental to sound public policy making. That is, the Joint Board fails to come to grips with the reality that subsidies can only be bestowed at some cost to others, namely those who subsequently carry the fiscal burden of the societal exchange of resources and welfare that these transfers involve. For instance, the JB's recommendations to increase the baseline for federal Lifeline support to \$5.25 are not compared to more or less ambitious options in their effects on the subsidy program, so that the onerous costs of changes in subsidy magnitudes can be assessed opposite the incremental benefits to advantaged end users. In short, the RD's tradeoffs are not consistently accompanied, in fiscal terms, with the "hard decisions" involved in controlling both the amount of specific subsidies and to whom these would be paid (eligibility).

COC does not agree at this time with proposals supporting expansion of eligibility for universal service subsidy support for meritorious services or groups. These would go beyond the very substantial advantages already provided by the legislation for the first time to certain social institutions, e.g., educational providers and libraries.<sup>6</sup> In this regard, consider the joint comments provided by People for the American Way, *et al.*, which call for extension of the Joint Board's "20-90% discount for all telecommunications services, Internet access, and internal connections . . . [and] to implement similar support for a wide variety of other community institutions and organizations, including community computing and media centers."<sup>7</sup>

Similarly, the Alliance for Community Media opines:

The Federal-State Joint Board declined to recommend that community-oriented organizations and consortiums of non-profit organizations receive the discounts and benefits accorded to schools and libraries. The Alliance respectfully urges the Commission to be **more proactive**. The Joint Board overlooked the fact that Congress has given the Commission the right to use its expansive authority under § 254(b)(7) of the Act to achieve the overarching goals of the universal service provision. It is those goals, not an **unnecessarily restrictive interpretation** of §254(h)(5), that the Commission must heed.<sup>8</sup>

In the past, there have been many attempts to convince governmental authorities that discounted service should be offered to charitable, nonprofit, social or governmental entities.

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<sup>6</sup> 47 U.S.C. § 254(h)(1)(B)

<sup>7</sup> People for the American Way, *et al.*, Comments, page 10.

<sup>8</sup> The Alliance for Community Media, Comments, page 6, footnotes omitted, emphasis added, underline in original.

The FCC and the Congress generally resisted these entreaties, with the Commission finding that it had no basis for extending special privileges to any organization under the Communications Act of 1934. The coming of the "Information Age" to fruition during the 1990s, international competitive pressures, and other factors have, of course, "carried the day" for some organizations under the 1996 Act. COC believes that universal service supports and subsidies have been expanded sufficiently at this time. There is no basis at this time to bring additional organizations under the new universal service support program set forth by the new legislation.

Although there are limitations, the program recommended by the Joint Board remains "open ended" in important respects. In particular, no fiscal caps have been projected, with the sole exception of assistance to schools and libraries. In this instance, an enormous program has been designed, but with a ceiling of \$2.25 billion. Yet, even this generous cap could be relaxed year-to-year. That is, "any funds that are not disbursed in a given year may be carried forward, and may be disbursed in subsequent years without regard to the cap."<sup>9</sup> In other cases, implementation of the Recommended Decision could create funding obligations for which no ceilings have been set. Given that the Joint Board's yet to decide on a definitive costing algorithm, it is not even possible at this time to calculate with any precision what range such obligations might fall within.

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<sup>9</sup> RD, paragraph 440.



Various parties have questioned the fiscal aspects of the Recommended Decision. For example, while AT&T supports Recommended Decision proposals to extend the Lifeline program nationwide, the company is concerned with the magnitude of the impact of new subsidies, rather than just the “per line figures” focused upon by the Joint Board. Other parties also believe that before RD proposals are considered for adoption, there should be further investigation of alternatives, quantification of impacts, and development of caps or built-in limitations on the subsidy program.

COC agrees with most parties that the use of toll blocking as a self limiting device should be encouraged. The Joint Board has recommended that Lifeline funding be utilized for voluntary toll blocking and toll limitation services.<sup>10</sup> The City believes that this proposal, which addresses the underlying causes of lower subscribership among low income households, represents the type of focus needed for developing fiscal responsibility, i.e., as opposed to simply increasing the size of subsidies.

In the case of low income consumers, the Joint Board has recommended and COC and many parties agree that carriers should be prohibited from disconnecting Lifeline service for nonpayment of toll charges.<sup>11</sup> This was found to be a “significant barrier to universal service.”

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<sup>10</sup> RD, paragraphs 383-87.

<sup>11</sup> RD, paragraphs 386-87.

Moreover,

low income consumers should not be prevented from making local telephone calls because they did not pay long distance charges, because such local calls could be emergency telephone calls or calls to schools, government offices, or health care providers.<sup>12</sup>

Unlike some industry parties, however, the City of Chicago strongly supports near term provisioning of toll limitation service that blocks toll calls after these have amounted to a predetermined dollar magnitude. For example, even where toll blocking is technically feasible, Ameritech objects to this proposal because such service “would require real time recording and rating of calls that local exchange subscribers make using carriers other than the billing local exchange carrier.”<sup>13</sup> COC believes that as long as requirements apply to entrants and incumbents alike, and thus satisfy the competitive neutrality principle, implementing this self limiting capability respecting growth of universal service amounts should be a priority.

### **III. EQUITY AND EFFICIENCY OF SUBSIDY MECHANISMS**

Neither the Joint Board nor any of the intervening parties fully identified all of the subsidies extant in current rate structures and the universal service support system. In particular, this applies both to the use of embedded cost measures, and to the relatively excessive contributions of urban subscribers to cover carrier costs, including those related to universal service, that are over and above the economic costs of service provisioning. The former issue

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<sup>12</sup> RD, paragraph 387.

<sup>13</sup> Ameritech, Comments, page 14.

has been addressed by the RD and many parties. However, the excessive contributions of urban subscribers has not, even though these are likely to increase in the future, particularly if the industry is successful in arguing that the revised universal service program should cover the "actual costs of providing universal service," or full carrier embedded costs.

COC does not support the position that embedded costs are the proper means of gauging subsidy levels. Instead, these should be based on economic costs or forward looking cost construction. Even granted the difficulties encountered by the JB in determining an acceptable cost model for specifying a service's economic costs, the City believes that these results are preferable to the embedded cost approach advocated by the industry both from the standpoint of limiting the magnitude of the universal service program, and realizing competitive benefits in urban and nonurban environments. Of course, the use of forward looking costs to guide business activities has long been recognized by the economics profession as the proper means of arriving at business decisions, and realizing productive efficiency and minimum resource usage.

In contrast, the telecommunications industry seems intent on prolonging use of the embedded cost framework that underlies the current antiquated universal service system. For instance, the United States Telephone Association proclaims

The proper determination of the cost of providing universal service is the actual cost the incumbent LEC incurs to provide universal service. A proxy cost model can be useful in identifying high cost areas, but such models, particularly

those which are based on **forward-looking costs** as recommended in the Joint Board decision, were **never intended to determine the cost of providing service.**

\* \* \*

As proposed by USTA in its October 3 Ex Parte, universal service support should be based upon actual, **embedded costs** that are regulated and unseparated. The types of costs to be recovered through universal service should include **100 percent** of loop costs, **100 percent** of transport costs assigned to local (this would not include access or toll transport) and switching costs, including **100 percent** of the line port costs, scaled to switch size . . .<sup>14</sup>

There has been considerable posturing by the various incumbent local exchange and interexchange carriers, as well as new entrants and other interested parties, regarding the distribution of fiscal responsibilities for the new universal service program. Clearly, the initial incidence or responsibility for contributions is important and will change considerably due to the shift away from the current implicit structure of fiscal obligations. The current system has been directed largely by rate structure and other decisions of incumbent local exchange carriers ("LECs"). The RD focuses, in part, on developing a regime that is more efficient if not equitable from the perspective of LECs and other current contributors who bear the incidence of financing responsibilities, e.g., the interexchange carriers.

However, ultimately the incidence of both the current and revised subsidy schemes will fall upon those service subscribers that are not advantaged by these financial flows. These are the groups not eligible for aid to offset actual costs of service, i.e., those not falling in the low income, rural, school, library, or similarly favored groupings of users. There is no discussion in the RD concerning the equity of amounts that the disfavored categories of end users must

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<sup>14</sup> United States Telephone Association, Comments, pages 12 and 14, emphasis added.

contribute. As mentioned, nor is there any estimate of the overall subsidy level of the new program or the detrimental effects that rate changes to pay for the below cost provisioning of others will have on unfavored subscribers.

The City of Chicago believes that both the Joint Board and the Commission have an obligation under the Act to consider these issues before finalizing the new universal service program. From the standpoint of urban customers, this assessment should include a review of contributions by area or locality, as well as service group, and should have the result of equalizing the relative above cost burdens or “markups” shouldered by all affected groups. This approach is necessary to neutralize discriminatory or inequitable effects.

Cost and rate evidence presented in Illinois indicates that inequities exist respecting the relative contributions to cover provisioning costs based on geographically-based customer groupings, in addition to service class, with markups over economic cost in rates paid by urban customers far outweighing those for nonurban subscribers. The approximate magnitude of these unfair distribution of cost markup responsibilities was demonstrated in a case involving LEC recovery of local franchise fees (“LFFs”).<sup>15</sup>

In this proceeding, the Illinois Commerce Commission Staff proposed that LFFs fees should be recovered only from those residential and business customers living or doing business

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<sup>15</sup> Illinois Commerce Commission v. Illinois Bell Telephone Company, Docket No. 93-0437.

in the locality imposing the LFF fee, rather than having LFFs amounts recovered from all ratepayers. The Staff argued, in effect, that localities “caused” LFFs and that such expenses are not a general cost of doing business. COC argued that such costs are common in nature, do not affect company decision making insofar as locational aspects are concerned, represent fair payment for resources obtained, and are expenditures that benefit all company subscribers, wherever they are located.

So far, the Staff has prevailed in its opinion that selective tracing of such fees to urban (Chicago) and nonurban (nonChicago) customers should be used for their recovery. However, record testimony revealed that such reassignments should still **not result** in higher urban rates. This was because case analyses showed that in comparison to their nonCity counterparts, City customers were already paying a higher level of contribution in current rates above direct costs, i.e., long run service incremental costs (LRSIC) plus revenue related expenses (RRE). This condition would still apply under the revised charging scheme. Thus, based on full equity of contribution, City rates should be lowered whether or not the Staff position had prevailed.

The figures for the original contribution markups in this case are shown in Table 1 (attached) for residential and business network access lines. From the figures, and an equity perspective, City customer rates should be lowered and nonCity rates should be raised. In several respects, the myopic selective tracing or narrow accounting approach to cost allocation ascribed to LFFs in this case is akin to use of an embedded cost approach for determining universal service contribution levels. In each instance, ties to economic resource costs and

rational economic behavior are broken, and, as a result, with both shareholders and consumers being worse off. Notably, noneconomic based cost assignments will encumber providers' attempts to balance factors affecting rate design and economic markups over costs (MOCs), and thereby distort proper ratemaking and the prices customers pay for service.

As noted, the City of Chicago believes that universal service support mechanisms should be based on economic, forward looking costs in determining all payments from the program. Such an approach would best result in efficient service provisioning and would further incentives for full competition. Accordingly, COC supports the Joint Board's conclusion that economic measures of the cost of providing universal service support should be utilized. This involves the use of forward looking, rather than embedded, cost parameters respecting the cost of "developing and operating the network facility and functions used to provide services supported under section 254(c)(1)."<sup>16</sup>

Clearly, there may be significant differences in the level of these charges for some providers, e.g., owing to changes in technology, altered strategic plans or company service mixes, or simply failure to recover past investments in a timely fashion. However, continuing to utilize embedded costs in the manner of the current universal service system operates at cross purposes with institution of a competitive marketplace, as Congress recognized in setting forth the requirements for universal service. Basing the new system on coverage of embedded costs

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<sup>16</sup> RD, paragraph 184.

would impose enormous burdens on customers to atone for past carrier decision making, however faulty. And, it would constitute a significant barrier to entry and bind development of competition to ongoing operating decisions of incumbents as these become part of the embedded cost base.

COC recognizes that, separate and apart from distinctions between embedded and economic costs, there may be instances where differences arise respecting calculations of economic costs. These charges may vary for the same service among suppliers owing to differences in the relative size of providers, the characteristics of a company's particular service matrix, or the region or area in which a given supplier may be operating. Clearly, firms that provision "high cost" operating territories would experience greater service costs vis-a-vis' the industry average, even though economic comparative cost parameters are used in both instances.

Of course, new entrants would face the same economic costs as the incumbent, and thus would have little incentive to enter a high cost area because the alternative supplier could "do no better" than the incumbent's economic cost based price, where that applied, or that price less an economic cost based subsidy. If the incumbent did not make use of available technology and efficient operating or management systems, or simply overcharged its customers, entry would be encouraged, assuming that any extant subsidy mechanisms applied to incumbents and entrants alike. In this way, support would be held to economic levels.



The FCC's Notice of Proposed Rulemaking and Order Establishing Joint Board ("NPRM") solicited comment regarding use of a competitive bidding process ("CBP") to set the level of subsidies required in rural, insular, and high cost areas.<sup>17</sup> The Commission recognized that:

Such an approach would attempt to **harness competitive forces to minimize the level of high-cost assistance** needed to implement our statutory mandate in areas where competition has developed. In such areas, competing carriers would bid to set the level of assistance per line that any carrier serving a specified area would receive, with the lowest bid winning. Although the low bidder would determine the amount of support per line served that eligible carriers would receive, any authorized carrier would be able to receive assistance at that level. The low bidder, however, would receive an additional "incentive bonus." The bonus would be necessary to induce competitors to underbid one another, rather than merely accepting the established level of assistance.<sup>18</sup>

As the Joint Board notes, many rural and smaller LECs oppose competitive bidding because of their reliance on the current level of support, while maintaining that they might be subject to "unrealistic bids" submitted by new entrants.<sup>19</sup> However, others offered implementation proposals, utilizing the economically based proxy cost model.<sup>20</sup> Although some implementation questions remained, the Joint Board found a CBP system very attractive

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<sup>17</sup> Notice of Proposed Rulemaking and Order Establishing Joint Board, CC Docket No. 96-45, March 8, 1996. Notice hereinafter cited as "NOPR."

<sup>18</sup> NOPR, paragraphs 35-36, emphasis added, footnotes omitted.

<sup>19</sup> See, e.g., NECA further comments.

<sup>20</sup> See, e.g., GTE and Time Warner further comments.

respecting its reliance on economic or market processes, efficiency, and potential for minimizing the level of subsidies. The RD notes that competitive bidding

holds the promise of using a **market-based approach to establishing the level of universal service support** for any given area. . . . The support level would reflect the bidding carriers' assessment of the costs of serving the market as well as their assessment of revenues, including current and future follow-on net revenues, which may well be harder for regulators to assess than costs. Such assessments would be well-suited to capture the effect of new technologies on service costs. . . . We thus concur with those commenters that argue that competitive bidding comports with the intent of the 1996 Act to rely on market forces and to minimize regulation. Moreover, as stated by one of the commenters, competitive bidding would **put all prospective eligible carriers on an equal footing.**

Another potential advantage of a properly structured competitive bidding system is that **it could reduce the amount of overall support needed for universal service.** Competitive bidding should encourage more efficient carriers to submit bids that reflect their lower costs. The bids reflecting the lower costs of the more efficient carriers would be used to set the level of universal service support for the entire service area. Additionally, competitive bidding **would convert the efficiency gains from new technologies or improved productivity into cost savings for universal service.**<sup>21</sup>

Despite its support for use of economic costs, market based processes, and minimization of the level of universal service supports, the Joint Board finds overwhelming the argument “that the use of a proxy model could cause some small carriers to receive levels of support different from what they currently receive.”<sup>22</sup> In addition, rural providers claim that competitive bidding is in conflict with the Act, and find that Joint Board reservations regarding its implementation are “not enough.” Notably, the Rural Telephone Coalition (“RTC”) maintains that

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<sup>21</sup> RD, paragraphs 342-43, emphasis added, footnotes omitted.

<sup>22</sup> RD, paragraph 184.

The Joint Board refuses to give the competitive bidding idea the **proper burial it deserves**. Even though the Joint Board does “not adopt any specific competitive bidding plan at this time,” it plans to “continue to explore the possibility.” Competitive bidding is **in conflict with the Act**. The authority to designate eligible carriers is given to the state commissions, which in turn must be guided by the principles and goals set forth in Section 254. The Commission clearly does not have the authority to compel states to proceed by competitive bidding.

Even if the Commission had such authority or works with the states to compel all state designated eligible telecommunications carriers to bid, the bidding process would not produce the **quality of service** contemplated by the Act, since the **winning bidder could be the carrier which intends to commit the least amount of resources to the area**. Competitive bidding is a “race to the bottom” and at odds with the Act’s emphasis on “quality services.” The superficial conjecture that bidding for support would force carriers to find ways to provide service in a more cost effective manner is not practical in the real world, at least absent an administratively unwieldy regulatory review of construction plans on an initial and continuing basis. Also, basing the study area support level on the lowest bid from all eligible carriers would risk providing a support level that is neither “sufficient” nor “predictable.” Such a scenario could lead to a drastic shortfall in the amount of high cost support necessary to maintain universal service. Basing all support on the lowest bid is **at odds with the principle of competitive neutrality**, since it would allow the competitive low bidder to target the customers it believes it can support with its low bid, while leaving the ILEC with inadequate support for the remaining high cost customers.

Additionally, the **circumstances** that allowed a state to designate a carrier as an eligible telecommunications carrier **might change after competitive bidding**.<sup>23</sup>

The City of Chicago does not agree that the bidding process can result in the least desirable supplier being chosen as the winning bidder. The RTC seems to believe that unlike most common bidding processes, no standards would be set for the quality of the product provided. This is simply an unreasonable assumption. COC views competitive bidding as being

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<sup>23</sup> Rural Telephone Coalition, Comments, pages 22-23.

closely aligned with the goals of the Act and the purpose of utilizing competitive forces to the maximum extent to provide service, including those offerings falling under the universal service program. If anything, competitive bidding offers a close approximation of conditions where competitive neutrality would prevail, rather than being at odds with this principle. Moving away from this approach flies in the face of attempts to extend competition to all markets, including those served by smaller carriers. Hopefully, circumstances will change, and continue to change, after competitive bidding, as market processes take hold in the sectors served by smaller carriers along with more populous areas.

Unfortunately, in its Recommended Decision , the Joint Board abandons the forward looking cost framework entirely in the case of smaller carriers for a period of three years. It substitutes, instead, the admittedly inadequate embedded cost approach.

In order to allow those carriers a reasonable period to adjust to the use of proxy models, we recommend that "rural telephone companies," as defined in the Communications Act, as amended, be allowed to continue using **embedded costs** as the basis for calculating their universal service support levels for three years after non-rural carriers begin to use proxy models. We recommend that, during that period, high cost assistance, DEM weighting, and LTS **benefits for rural carriers be frozen based on historical per-line amounts**. At the end of that three-year period, rural companies will transition to a proxy model over three years.<sup>24</sup>

The City of Chicago believes that there is no justification for altering the basic framework of the RD as the Joint Board intends. Basically, this JB recommendation would benefit only the

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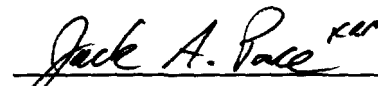
<sup>24</sup> RD, paragraph 184, emphasis added, footnotes omitted.

shareholders of a few companies. It clearly disadvantages the intended recipients of the new telecommunications structure as designed by the Congress, namely consumers. It is unfair and inequitable to other carriers, as well, since these firms will be operating under an economic cost based approach while select companies continue under the old system.

Dated: January 10, 1997

Respectfully submitted,

City of Chicago  
Susan S. Sher  
Corporation Counsel

  
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**TABLE 1: Relative Contributions of Chicago and NonChicago Customers Above Costs [\*]**

[\*] Illinois Commerce Commission Docket No. 93-0437, COC Exhibit 2.1

**RESIDENCE NETWORK ACCESS LINES**

<u>CHICAGO</u>		Contribu Above	Percentage
Area	No. Lines	LRSIC + RRE	Contribution
A	61,168	\$792,620	21.95%
B	953,216	\$6,661,377	7.00%
	1,014,384	\$7,453,997	7.55%
<u>NONCHICAGO</u>		Contribu Above	Percentage
	No. Lines	LRSIC + RRE	Contribution
B	302,074	\$2,110,991	7.00%
C	2,157,231	\$18,693,874	6.25%
	2,459,305	\$20,804,865	6.32%

**BUSINESS NETWORK ACCESS LINES**

<u>CHICAGO</u>		Contribu Above	Percentage
	No. Lines	LRSIC + RRE	Contribution
A	126,207	\$6,016,470	80.74%
B	171,784	\$9,151,414	53.36%
	297,991	\$15,167,884	61.65%
<u>NONCHICAGO</u>		Contribu Above	Percentage
	No. Lines	LRSIC + RRE	Contribution
B	111,336	\$5,931,181	53.36%
C	645,541	\$38,641,516	43.15%
	756,877	\$44,572,697	44.28%